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Message Text

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ORIGIN TRSE-00

INFO OCT-01 ARA-06 ISO-00 EB-07 AID-05 AGR-05 FEA-01 OES-03

CIAE-00 INR-07 NSAE-00 RSC-01 L-02 COME-00 FRB-01

XMB-02 OPIC-03 SP-02 CIEP-01 OMB-01 IO-10 SS-15 NSC-05

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E.O. 11652: N/A
TAGS: EFIN, MX
SUBJECT: IFI LENDING TO OIL PRODUCING COUNTRIES

REF: MEXICO CITY 10758

SUMMARY. FOLLOWING IS RESPONSE TO REFTEL CONCERNING IMPLICATIONS RECENT U.S. POLICY STATEMENT ON IFI LENDING TO OIL PRODUCING AND EXPORTING COUNTRIES. END SUMMARY

1. U.S. EXECUTIVE DIRECTOR SETHNESS ABSTAINED FROM IBRD BOARD APPROVAL OF $107.5 MILLION IN AGRICULTURAL LOANS TO NIGERIA ON DECEMBER 17 IN LINE WITH CURRENT USG POLICY ON IFI LENDING TO OIL PRODUCING AND EXPORTING COUNTRIES. ALTHOUGH PREVIOUSLY EXPRESSED INFORMALLY, SETHNESS SET OUT FORMAL U.S. POLICY TO BE APPLIED HENCE-

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FORTH AS SUMMARIZED BELOW. U.S. POLICY STATEMENT WAS NOT

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INTENDED TO SINGLE OUT NIGERIA.

2. U.S. POSITION BASED ON CLEAR ASSUMPTION THAT BASIC PURPOSE OF WORLD BANK AND OTHER IFI'S IS TO ASSIST DEVELOPING COUNTRIES IN NEED OF EXTERNAL FINANCIAL SUPPORT. TODAY U.S. SEES NEED FOR APPROPRIATE ADJUSTMENT OF CURRENT IFI LENDING POLICIES TO NEW SITUATION WHERE INCREASED OIL PRICE HAS CREATED SERIOUS PROBLEMS FOR MANY DEVELOPING COUNTRIES, WHILE GREATLY INCREASING INCOMES AND FOREIGN

EXCHANGE EARNINGS OF OIL EXPORTING COUNTRIES. ACCORDINGLY, U.S. SEES NO JUSTIFICATION FOR SOFT LOANS TO OIL EXPORTERS AND BELIEVES ORDINARY CAPITAL LOANS SHOULD BE RESTRICTED TO ONLY POOREST OIL EXPORTING NATIONS WITH PRESSING FOREIGN EXCHANGE NEEDS FOR DEVELOPMENT PROJECTS.

3. POLICY STATEMENT ENCOURAGES INCREASED PARTICIPATION IN DEVELOPMENT BANKS BY MAJOR SURPLUS COUNTRIES THROUGH: (A) ADDITIONAL PURCHASES OF ORDINARY CAPITAL SHARES AS LONG AS ACCOMPANIED BY COMMENSURATE GRANT CONTRIBUTIONS TO CONCESSIONARY IFI WINDOWS OR FUNDS IN TRUST TO INCREASE VITALLY NEEDED LOW INTEREST, LONG-TERM DEVELOPMENT ASSISTANCE, AND (B) REPURCHASING OR PROMPT REPAYMENT OF IFI LOANS BY MAJOR SURPLUS COUNTRIES WITH WAIVER OF ANY PENALTY PREMIUM REQUIRED BY DEVELOPMENT BANKS.

4. WE RECOGNIZE THAT SOME OIL EXPORTING COUNTRIES MAY WISH TO HAVE THE BENEFIT OF CONTINUED TECHNICAL AND MANAGEMENT ASSISTANCE FROM THE BANK IN THEIR DEVELOPMENT PROGRAM AND PROJECTS EVEN THOUGH THEY HAVE NO PRESSING NEED FOR BANK FINANCIAL SUPPORT. LIMITED ASSISTANCE TO MEET THIS DESIRE COULD APPROPRIATELY BE MADE AVAILABLE THROUGH A NUMBER OF ALTERNATIVE PROCEDURES, PROVIDED THE BANK'S ABILITY TO SUPPORT OTHER COUNTRIES WITH FINANCIAL REQUIREMENTS IS NOT RESTRICTED WHETHER THROUGH THE ENCUMBRANCE OF BANK CAPITAL OR THE DIVERSION OF SCARCE BANK MANAGEMENT AND TECHNICAL SERVICES, AND PROVIDED THAT THE FULL COSTS OF SUCH ASSISTANCE ARE CHARGED.

5. THE U.S. DOES NOT BELIEVE OFFSET LENDING BY MAJOR
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SURPLUS COUNTRIES IS A FULL AND COMPLETE SOLUTION TO THIS PROBLEM, SINCE RELATED BORROWING ENCUMBERS PART I COUNTRY GUARANTEED CALLABLE CAPITAL AND PROVIDES SPECIAL INCENTIVES TO ONE CLASS OF BORROWER. THE U.S. CONSIDERED OFFSET LENDING TO BE ONLY A TRANSITORY SOLUTION IN CY 1974, AND SUPPORTS CURRENT EFFORTS BY THE BANK TO NEGOTIATE ALTERNATIVE ARRANGEMENTS FOR A CONTINUATION OF BANK ASSISTANCE TO THESE COUNTRIES WITHOUT IN ANY WAY LIMITING THE BANK'S

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ABILITY TO ASSIST MORE SERIOUSLY AFFECTED COUNTRIES.

6. WORLD BANK PLANS FULL REVIEW BANK POLICIES AND PRACTICES REGARDING OIL EXPORTERS IN BOARD JANUARY 21.

7. INTER-AMERICAN DEVELOPMENT BANK EXPECTED TO DISCUSS FUND FOR SPECIAL OPERATIONS LENDING POLICIES ALSO IN JANUARY. U.S. POLICY ON IFI LENDING TO OIL EXPORTERS RELEVANT TO FSO DISCUSSION IN THAT U.S. BELIEVES SELECTED COUNTRIES SUCH AS ECUADOR SHOULD NO LONGER BE BORROWING FSO FUNDS OWING TO GREATLY IMPROVED FOREIGN EXCHANGE

POSITIONS. VENEZUELA HAS ALREADY VOLUNTARILY REFRAINED FROM FSO BORROWING.

8. SINCE U.S. POLICY IS DIRECTED TO OIL EXPORTERS WITHOUT CURRENT NEED FOR EXTERNAL FINANCING OF DEVELOPMENT PROJECTS, MEXICO CURRENTLY DOES NOT FALL INTO THIS CATEGORY AS IT HAS LARGE CURRENT ACCOUNT DEFICIT. HOWEVER, MOST PRO-JECTIONS OF FUTURE EXPORT EARNINGS FOR MEXICO INDICATE RAPIDLY IMPROVING POSITION, PARTLY BECAUSE OF OIL EXPORTS WHICH WE WISH TO ENCOURAGE. ALSO IT MUST BE KEPT IN MIND THAT LOANS MADE IN 1975 WILL ONLY BE DISBURSED SEVERAL YEARS IN THE FUTURE. THUS MEXICO COULD FALL WITHIN IFI CONSTRAINT SITUATION IN FUTURE.

9. ASIDE FROM OIL RELATED ISSUES MEXICO CERTAINLY IS AMONG WEALTHIER LA COUNTRIES AND IS AWARE OF CURRENT IDB POLICY TO REDUCE HARD CURRENCY FSO LENDING TO CATEGORY A COUNTRIES (ARGENTINA, BRAZIL, MEXICO, VENEZUELA). U.S.-GOM BILATERAL DISCUSSIONS RECENT FSO IRRIGATION LOAN INCLUDED CLEAR EXPLANATION U.S.POSITION. WE BELIEVE ALSO THAT IMPROVED EXPORTS PROSPECTS WILL IMPROVE GOM ACCESS
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TO INTERNATIONAL CAPITAL MARKETS.

10. DURING VISIT TO WASHINGTON NEXT WEEK MINFIN LOPEZ PORTILLO, APPROPRIATE STATE AND TREASURY OFFICIALS WOULD BE WILLING TO MEET WITH HIM TO DISCUSS POLICY QUESTIONS. KISSINGER

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